

EARLHAM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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# Earlham Community School District

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Mike Madren	President	2005
David Steward	Vice President	2007
Ernie Barnes	Board Member	2005
Lynn Boyle	Board Member	2006
Trish Hopkins	Board Member	2007

## Board of Education (After September 2005 Election)

Mike Madren	President	2008
David Steward	Vice President	2007
David Morford	Board Member	2008
Lynn Boyle	Board Member	2006
Trish Hopkins	Board Member	2007

## School Officials

H. Douglas Latham	Superintendent	2006
Jodi Stroud	District Secretary and Business Manager	2006
Ahlers & Cooney, P.C.	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Earlham Community School District, Earlham Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Earlham Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2006 on our consideration of the Earlham Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Earlham Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 7, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Earlham Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,854,687 in fiscal 2005 to \$4,328,828 in fiscal 2006, while General Fund expenditures increased from \$4,224,459 in fiscal 2005 to \$4,420,428 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$802,080 in fiscal 2005 to a balance of \$713,180 in fiscal 2006, an 11% decrease from the prior year. This is in line with the school board's position to gradually lower the unspent balance and move our solvency ratio to a lower, more acceptable level.
- After significantly lowering the fund balance over the last few years, the District now has to find a way to maintain a fund balance level that will cash-flow the operations on a day-to-day basis.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Earlham Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Earlham Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Earlham Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **2006 FINANCIAL HIGHLIGHTS**

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Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Earlham Community School District Annual Financial Report**

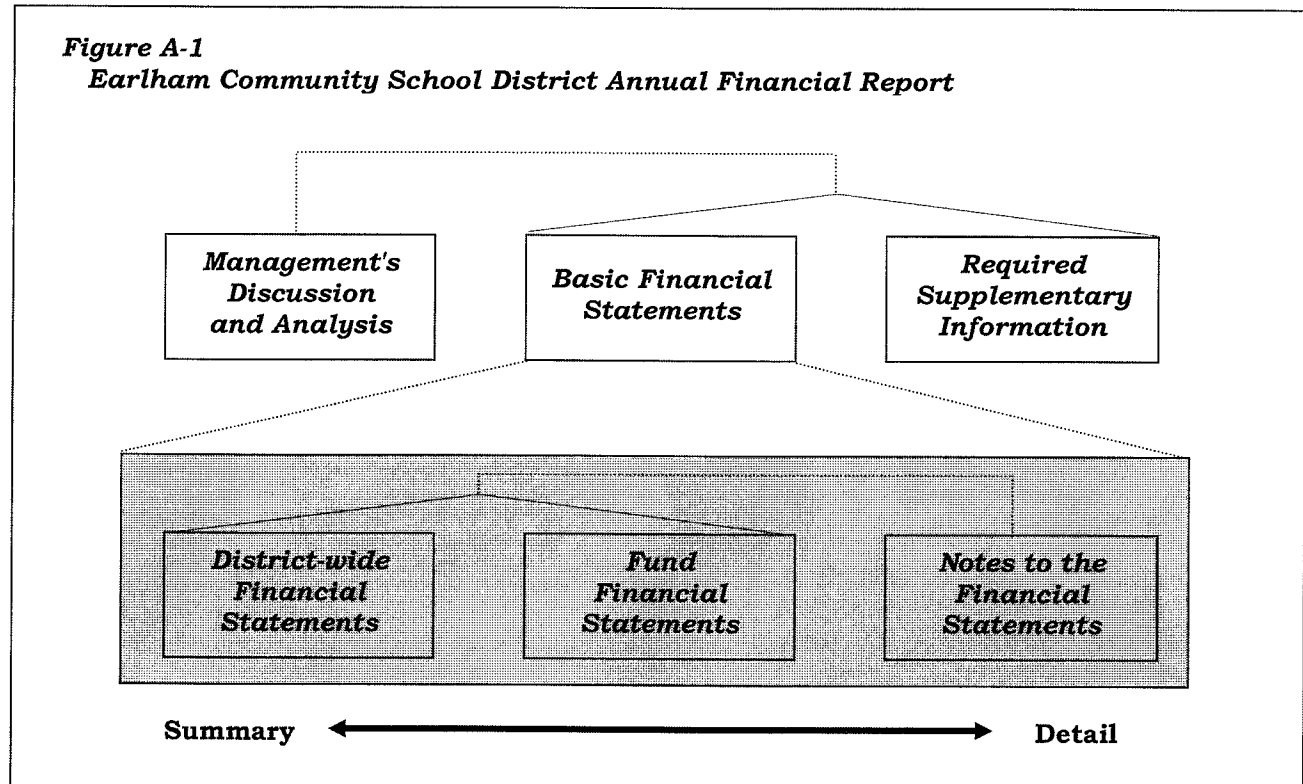




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,409,262	2,840,152	17,376	5,927	3,426,638	2,846,079	20.40%
Capital assets	6,616,988	6,827,012	126,856	139,995	6,743,844	6,967,007	-3.20%
Total assets	10,026,250	9,667,164	144,232	145,922	10,170,482	9,813,086	3.64%
Long-term obligations	3,395,000	3,605,000	0	0	3,395,000	3,605,000	-5.83%
Other liabilities	2,363,971	2,108,440	3,314	5,987	2,367,285	2,114,427	11.96%
Total liabilities	5,758,971	5,713,440	3,314	5,987	5,762,285	5,719,427	0.75%
Net assets:							
Invested in capital assets, net of related debt	3,257,343	3,219,937	126,856	139,995	3,384,199	3,359,932	0.72%
Restricted	346,594	125,213	0	0	346,594	125,213	176.80%
Unrestricted	663,342	608,574	14,062	(60)	677,404	608,514	11.32%
Total net assets	\$ 4,267,279	3,953,724	140,918	139,935	4,408,197	4,093,659	7.68%

The District's combined net assets increased by 7.68%, or \$314,538, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$221,381 or 176.8% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$68,890, or 11.32%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 562,678	608,721	214,084	200,739	776,762	809,460	-4.04%
Operating grants and contributions and restricted interest	513,277	481,277	64,516	59,254	577,793	540,531	6.89%
General revenues:							
Property tax	1,642,762	1,577,727	0	0	1,642,762	1,577,727	4.12%
Local option sales and service tax	404,653	240,768	0	0	404,653	240,768	68.07%
Unrestricted state grants	2,225,529	1,909,275	0	0	2,225,529	1,909,275	16.56%
Unrestricted investment earnings	41,377	21,200	123	31	41,500	21,231	95.47%
Other	43,305	0	0	0	43,305	0	100.00%
Total revenues	5,433,581	4,838,968	278,723	260,024	5,712,304	5,098,992	12.03%
Program expenses:							
Governmental activities:							
Instructional	3,136,023	2,876,556	0	0	3,136,023	2,876,556	9.02%
Support services	1,411,210	1,498,215	0	0	1,411,210	1,498,215	-5.81%
Non-instructional programs	0	0	277,740	279,498	277,740	279,498	-0.63%
Other expenses	572,793	495,583	0	0	572,793	495,583	15.58%
Total expenses	5,120,026	4,870,354	277,740	279,498	5,397,766	5,149,852	4.81%
Excess (deficiency) of revenues over (under) expenses	313,555	(31,386)	983	(19,474)	314,538	(50,860)	718.44%
Other financing sources, net	0	0	0	143,189	0	143,189	-100.00%
Change in net assets	313,555	(31,386)	983	123,715	314,538	92,329	240.67%
Net assets beginning of year	3,953,724	3,985,110	139,935	16,220	4,093,659	4,001,330	2.31%
Net assets at end of year	\$ 4,267,279	3,953,724	140,918	139,935	4,408,197	4,093,659	7.68%

In fiscal 2006, property tax and unrestricted state grants account for 71.2% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$5.71 million of which \$5.43 million was for governmental activities and less than \$0.28 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 11.98% increase in revenues and a 4.81% increase in expenses. Unrestricted state grants increased \$316,254 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$5,430,881 and expenses were \$5,120,026.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,136,023	2,230,993
Support services	1,411,210	1,410,865
Other expenses	572,793	402,213
Totals	<u>\$ 5,120,026</u>	<u>4,044,071</u>

- The cost financed by users of the District's programs was \$562,678.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$513,277.
- The net cost of governmental activities was financed with \$1,642,762 in property tax, \$404,653 in local option sales tax, \$2,225,529 in unrestricted state grants, and \$41,377 in investment earnings.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$278,723 and expenses were \$277,740. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, the Earlham Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,071,667, above last year's ending fund balances of a \$764,016.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and unrestricted state grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year. The continued decrease in the year ending fund balance requires a steady monitoring of cash flow. The addition of several new staff members over the past couple of years has had the greatest impact on the fund balance.
- The General fund balance decreased from \$802,080 in fiscal 2005 to \$713,180 in fiscal 2006, due in part to increases negotiated salary and benefits received by employees of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$21,665 in fiscal 2005 to \$56,249 in fiscal 2006. While revenues remained approximately the same as compared to fiscal 2005, the District's substantially reduced spending from the PPEL Fund guaranteed the increase in fund balance.

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- The Capital Projects Fund balance increased from a deficit \$164,221 in fiscal 2005 to a positive \$185,196 in fiscal 2006. Revenues for the Capital Projects Fund increased \$163,885 while expenses decreased \$56,160 as compared to fiscal 2005. These two factors coupled together assured the District of an increased fund balance.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$139,935 at June 30, 2005 to \$140,918 at June 30, 2006, representing an increase of approximately 1%.

The cash flow and the operating costs of the hot lunch fund are monitored closely to make sure the revenues from the hot lunch sales are adequate to cover increased supply and transportation costs. The sales mix of regular meals (breakfast and lunch) and ala carte sale is a determining factor in keeping the hot lunch program in a positive balance with little supplement from the General Fund.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$140,260 more than budgeted revenues, a variance of 2.5%. The increase can be attributed to the District receiving more local and federal monies than were originally anticipated.

Total expenditures were \$1,101,638 less than budgeted. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2006, the District had invested \$6,743,844, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$272,589.

The original cost of the District's capital assets was \$9,547,312. Governmental funds account for \$9,374,480 with the remainder of \$172,832 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$859,907 at June 30, 2005, compared to \$33,075 reported at June 30, 2006. This decrease resulted from depreciation expense for the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 10,000	10,000	0	0	10,000	10,000	0.00%
Buildings	6,380,067	6,514,886	0	0	6,380,067	6,514,886	-2.11%
Improvements other than buildings	33,075	59,907	0	0	33,075	59,907	-81.12%
Machinery and equipment	193,846	242,219	126,856	139,995	320,702	382,214	-19.18%
Total	\$ 6,616,988	6,827,012	126,856	139,995	6,743,844	6,967,007	-3.31%

### Long-Term Debt

At June 30, 2006, the District had \$3,395,000 in general obligation, and other long-term debt outstanding. This represents a decrease of 5% from last year. (See figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 2,840,000	2,970,000	-4.4%
Capital loan note	555,000	635,000	-12.6%
Totals	\$ 3,395,000	3,605,000	-5.3%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Earlham Community School District is one of a few schools in the state that has seen consistent enrollment increases over the last several years.
- The District is going to purchase 30 acres of land in July 2007. A planning committee is working on determining what type of facility would best fit the needs of the District to be built on that site. The SILO funds will be used for the land purchase.
- Classroom space is very limited so a top priority facing the District is to determine how to house the current student population until a new facility can be built. The challenge is to find a solution that doesn't completely deplete our reserve PPEL and SILO funds that need to be saved for the future construction project.
- Several other projects have been mentioned as improvements for the district. Among them are a competition gym, all-weather track and a bus barn.
- Any and/or all of these would have a significant financial impact on the District.
- The challenge for the district is to prioritize the needs and look closely at the funding resources available through bonding capacity and SILO tax. Also, it is important to find a balance between the amount of debt to carry and dealing with the day-to-day operational costs.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Stroud, Business Manager, Earlham Community School District, P.O. Box 430, Earlham, Iowa, 50072.



BASIC FINANCIAL STATEMENTS

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
ISCAP(Note 5)	\$ 178,621	0	178,621
Other	1,250,452	13,827	1,264,279
Receivables			
Property tax:			
Delinquent	21,878	0	21,878
Succeeding year	1,746,345	0	1,746,345
Accrued ISCAP interest (Note 5)	3,620	0	3,620
Due from other governments	208,346	0	208,346
Inventories	0	3,549	3,549
Capital assets, net of accumulated depreciation (Note 6)	6,616,988	126,856	6,743,844
<b>TOTAL ASSETS</b>	<b>10,026,250</b>	<b>144,232</b>	<b>10,170,482</b>
<b>LIABILITIES</b>			
Accounts payable	11,043	13	11,056
Salaries and benefits payable	397,957	0	397,957
ISCAP warrants payable (Note 5)	178,000	0	178,000
ISCAP accrued interest payable (Note 5)	3,138	0	3,138
ISCAP unamortized premium	1,112	0	1,112
Accrued interest payable	26,376	0	26,376
Deferred revenue:			
Succeeding year property tax	1,746,345	0	1,746,345
Other	0	3,301	3,301
Long-term liabilities: (Note 7)			
Portion due within one year:			
General obligation bonds payable	135,000	0	135,000
Capital loan note	85,000	0	85,000
Portion due after one year:			
General obligation bonds payable	2,705,000	0	2,705,000
Capital loan note	470,000	0	470,000
<b>TOTAL LIABILITIES</b>	<b>5,758,971</b>	<b>3,314</b>	<b>5,762,285</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,257,343	126,856	3,384,199
Restricted for:			
Salary improvement program	8,612	0	8,612
Phase III	1,310	0	1,310
Talented and Gifted	39,917	0	39,917
Capital projects	185,196	0	185,196
Management levy	58,929	0	58,929
Other special revenue purposes	52,630	0	52,630
Unrestricted	663,342	14,062	677,404
<b>TOTAL NET ASSETS</b>	<b>\$ 4,267,279</b>	<b>140,918</b>	<b>4,408,197</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,141,547	345,773	312,699	(1,483,075)	0	(1,483,075)
Special instruction	425,315	39,073	29,653	(356,589)	0	(356,589)
Other instruction	569,161	177,832	0	(391,329)	0	(391,329)
	3,136,023	562,678	342,352	(2,230,993)	0	(2,230,993)
Support services:						
Student services	78,266	0	0	(78,266)	0	(78,266)
Instructional staff services	117,377	0	0	(117,377)	0	(117,377)
Administration services	551,697	0	0	(551,697)	0	(551,697)
Operation and maintenance of plant services	511,419	0	0	(511,419)	0	(511,419)
Transportation services	152,451	0	345	(152,106)	0	(152,106)
	1,411,210	0	345	(1,410,865)	0	(1,410,865)
Other expenditures:						
Facilities acquisitions	38,921	0	0	(38,921)	0	(38,921)
Long-term debt interest	176,350	0	0	(176,350)	0	(176,350)
AEA flowthrough	170,580	0	170,580	0	0	0
Depreciation(unallocated)*	186,942	0	0	(186,942)	0	(186,942)
	572,793	0	170,580	(402,213)	0	(402,213)
Total governmental activities	5,120,026	562,678	513,277	(4,044,071)	0	(4,044,071)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	277,740	214,084	64,516	0	860	860
Total business-type activities	277,740	214,084	64,516	0	860	860
Total	\$ 5,397,766	776,762	577,793	(4,044,071)	860	(4,043,211)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,230,574	0	1,230,574
Debt service				270,622	0	270,622
Capital outlay				141,566	0	141,566
Local option sales and services				404,653	0	404,653
Unrestricted state grants				2,225,529	0	2,225,529
Unrestricted investment earnings				41,377	123	41,500
Gain on sale of assets				2,700	0	2,700
Other				40,605	0	40,605
Total general revenues				4,357,626	123	4,357,749
Changes in net assets				313,555	983	314,538
Net assets beginning of year				3,953,724	139,935	4,093,659
Net assets end of year				\$ 4,267,279	140,918	4,408,197

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 178,621	0	0	178,621
Other	822,433	261,102	166,917	1,250,452
Receivables:				
Property tax:				
Delinquent	15,088	0	6,790	21,878
Succeeding year	1,241,146	0	505,199	1,746,345
Accrued ISCAP interest(Note 5)	3,620	0	0	3,620
Due from other funds	191,137	0	0	191,137
Due from other governments	93,115	115,231	0	208,346
<b>TOTAL ASSETS</b>	<b>\$ 2,545,160</b>	<b>376,333</b>	<b>678,906</b>	<b>3,600,399</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 10,627	0	416	11,043
Salaries and benefits payable	397,957	0	0	397,957
Due to other funds	0	191,137	0	191,137
ISCAP warrants payable(Note 5)	178,000	0	0	178,000
ISCAP accrued interest payable(Note 5)	3,138	0	0	3,138
ISCAP unamortized premium	1,112	0	0	1,112
Deferred revenue:				
Succeeding year property tax	1,241,146	0	505,199	1,746,345
Total liabilities	1,831,980	191,137	505,615	2,528,732
Fund balances:				
Reserved for:				
Salary improvement program	8,612	0	0	8,612
Phase III	1,310	0	0	1,310
Talented and Gifted	39,917	0	0	39,917
Debt service	0	0	5,482	5,482
Unreserved:				
Undesignated	663,341	185,196	167,809	1,016,346
Total fund balances	713,180	185,196	173,291	1,071,667
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,545,160</b>	<b>376,333</b>	<b>678,906</b>	<b>3,600,399</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total fund balances of governmental funds (page 16) \$ 1,071,667

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in in the governmental funds. 6,616,988

Accrued interest payable on long-term liabilities is not  
due and payable in the current period and, therefore, is  
not reported as a liability in the governmental funds. (26,376)

Long-term liabilities, including bonds and notes payable,  
are not due and payable in the current period and, therefore,  
are not reported in the funds. (3,395,000)

Net assets of governmental activites (page 14) \$ 4,267,279

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,132,432	404,653	510,330	2,047,415
Tuition	384,846	0	0	384,846
Other	72,744	5,221	181,849	259,814
State sources	2,626,931	0	0	2,626,931
Federal sources	111,875	0	0	111,875
Total revenues	4,328,828	409,874	692,179	5,430,881
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,136,718	0	0	2,136,718
Special instruction	425,315	0	0	425,315
Other instruction	386,941	0	182,220	569,161
	2,948,974	0	182,220	3,131,194
Support services:				
Student services	78,266	0	0	78,266
Instructional staff services	117,377	0	0	117,377
Administration services	550,297	0	0	550,297
Operation and maintenance of plant services	413,851	12,977	83,450	510,278
Transportation services	141,083	0	0	141,083
	1,300,874	12,977	83,450	1,397,301
Other expenditures:				
Facilities acquisitions	0	38,105	816	38,921
Long-term debt:				
Principal	0	0	210,000	210,000
Interest and fiscal charges	0	9,375	168,559	177,934
AEA flowthrough	170,580	0	0	170,580
	170,580	47,480	379,375	597,435
Total expenditures	4,420,428	60,457	645,045	5,125,930
Excess(deficiency) of revenues over(under)expenditures	(91,600)	349,417	47,134	304,951
Other financing sources (uses):				
Sale of equipment	2,700	0	0	2,700
Transfers in	0	0	107,905	107,905
Transfers out	0	0	(107,905)	(107,905)
Total other financing sources (uses)	2,700	0	0	2,700
Net change in fund balances	(88,900)	349,417	47,134	307,651
Fund balance beginning of year	802,080	(164,221)	126,157	764,016
Fund balance end of year	\$ 713,180	185,196	173,291	1,071,667

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 307,651

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 49,426	
Depreciation expense	(259,450)	(210,024)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	210,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,584

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

ISEBA assessment	4,344
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Changes in net assets of governmental activities (page 15)	\$ 313,555
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 13,827
Inventories	3,549
Capital assets, net of accumulated depreciation(Note 6)	<u>126,856</u>
<b>Total assets</b>	<u>144,232</u>
<b>LIABILITIES</b>	
Accounts payable	13
Deferred revenue:	
Other	<u>3,301</u>
<b>Total liabilities</b>	<u>3,314</u>
<b>NET ASSETS</b>	
Invested in capital assets	126,856
Unrestricted	<u>14,062</u>
<b>Total net assets</b>	<u><u>\$ 140,918</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	<u>\$        214,084</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	77,911
Benefits	19,981
Services	1,483
Supplies	165,226
Depreciation	13,139
Total operating expenses	<u>277,740</u>
Operating loss	<u>(63,656)</u>
Non-operating revenues:	
State sources	3,247
Federal sources	61,269
Interest on investments	123
Total non-operating revenues	<u>64,639</u>
Net income	983
Net assets beginning of year	<u>139,935</u>
Net assets end of year	<u>\$        140,918</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 211,413
Cash payments to employees for services	(97,879)
Cash payments to suppliers for goods or services	(151,411)
Net cash used in operating activities	<u>(37,877)</u>
Cash flows from non-capital financing activities:	
State grants received	3,247
Federal grants received	47,312
Net cash provided by non-capital financing activities	<u>50,559</u>
Cash flows from investing activities:	
Interest on investments	<u>123</u>
Net increase in cash and cash equivalents	12,805
Cash and cash equivalents at beginning of year	<u>1,022</u>
Cash and cash equivalents at end of year	<u>\$ 13,827</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (63,656)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,957
Depreciation	13,139
Decrease in inventories	1,341
Decrease in accounts receivable	15
Increase in salaries and benefits payable	13
Decrease in deferred revenue	(2,686)
Net cash used in operating activities	<u>\$ (37,877)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 13,827</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$13,957.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Earlham Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Earlham, Iowa, and the predominate agricultural territory in Dallas and Madison Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Earlham Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Earlham Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dallas and Madison Counties Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary financial statements are reported using the "economic resources measurement focus. The Government-wide and

proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 781,118</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Local Option Sales and Services Tax	<u>\$ 191,137</u>



**(4) Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Physical Plant and Equipment Levy	\$ 107,905

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 178,621	3,620	178,000	3,138

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. At June 30, 2006, no ISCAP advance activity was noted.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06B	4.500%	4.772%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 10,000	0	0	10,000
Total capital assets not being depreciated	10,000	0	0	10,000
Capital assets being depreciated:				
Buildings	8,367,384	25,290	0	8,392,674
Improvements other than buildings	134,161	0	0	134,161
Machinery and equipment	870,509	24,136	57,000	837,645
Total capital assets being depreciated	9,372,054	49,426	57,000	9,364,480
Less accumulated depreciation for:				
Buildings	1,852,498	160,109	0	2,012,607
Improvements other than buildings	74,254	26,832	0	101,086
Machinery and equipment	628,290	72,509	57,000	643,799
Total accumulated depreciation	2,555,042	259,450	57,000	2,757,492
Total capital assets being depreciated, net	6,817,012	(210,024)	0	6,606,988
Governmental activities capital assets, net	\$ 6,827,012	(210,024)	0	6,616,988
Business-type activities:				
Machinery and equipment	\$ 172,832	0	0	172,832
Less accumulated depreciation	32,837	13,139	0	45,976
Business-type activities capital assets, net	\$ 139,995	(13,139)	0	126,856

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 9,173
Support services:	
Administrative	9,062
Operation and maintenance of plant	17,615
Transportation	36,658
Unallocated depreciation	72,508
Total governmental activities depreciation expense	\$ 259,450
Business-type activities:	
Food services	\$ 13,139

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bond	\$ 2,970,000	0	130,000	2,840,000	135,000
Capital Loan Note	635,000	0	80,000	555,000	85,000
Total	\$ 3,605,000	0	210,000	3,395,000	220,000

General Obligation Bonds Payable

Details of the District's June 30, 2006 General Obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Issue dated February 1, 2002		
		Principal	Interest	Total
2007	4.00 % \$	135,000	133,754	268,754
2008	4.00	140,000	128,354	268,354
2009	4.50	150,000	122,754	272,754
2010	4.50	155,000	116,004	271,004
2011	4.50	160,000	109,029	269,029
2012	4.50	165,000	101,829	266,829
2013	4.50	175,000	94,404	269,404
2014	4.60	185,000	86,529	271,529
2015	4.63	195,000	78,019	273,019
2016	5.00	200,000	69,000	269,000
2017	5.00	215,000	59,000	274,000
2018	5.00	225,000	48,250	273,250
2019	5.00	235,000	37,000	272,000
2020	5.00	245,000	25,250	270,250
2021	5.00	260,000	13,000	273,000
Total		\$ 2,840,000	1,222,176	4,062,176

Capital Loan Notes

Details of the District's June 30, 2006 Capital Loan Note indebtedness that is paid by the Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Interest Rates	Issue dated February 1, 2002		
		Principal	Interest	Total
2007	4.00 % \$	85,000	24,505	109,505
2008	4.20	85,000	21,105	106,105
2009	4.40	90,000	17,535	107,535
2010	4.50	95,000	13,375	108,375
2011	4.60	100,000	9,300	109,300
2012	4.70	100,000	4,700	104,700
Total		\$ 555,000	90,520	645,520

### Early Retirement

The District offers a voluntary early retirement plan to its employees. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 20% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay plus 50% of unused sick leave. There were no early retirement benefits paid by the District for year ended June 30, 2006.

### **(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$140,503, \$145,821, \$135,790, respectively, equal to the required contributions for each year.

### **(9) Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$170,580 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EARLHAM COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,692,075	214,207	2,906,282	2,771,735	2,771,735	134,547
State sources	2,626,931	3,247	2,630,178	2,638,609	2,638,609	(8,431)
Federal sources	111,875	61,269	173,144	159,000	159,000	14,144
Total revenues	5,430,881	278,723	5,709,604	5,569,344	5,569,344	140,260
Expenditures:						
Instruction	3,131,194	0	3,131,194	3,278,719	3,278,719	147,525
Support services	1,397,301	0	1,397,301	2,036,279	2,036,279	638,978
Non-instructional programs	0	277,740	277,740	282,992	282,992	5,252
Other expenditures	597,435	0	597,435	907,318	907,318	309,883
Total expenditures	5,125,930	277,740	5,403,670	6,505,308	6,505,308	1,101,638
Excess(deficiency) of revenues over(under) expenditures	304,951	983	305,934	(935,964)	(935,964)	1,241,898
Other financing sources(uses), net	2,700	0	2,700	(1,500)	(1,500)	4,200
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing sources(uses)	307,651	983	308,634	(937,464)	(937,464)	1,246,098
Balance beginning of year	764,016	139,935	903,951	1,244,807	1,244,807	(340,856)
Balance end of year	\$ 1,071,667	140,918	1,212,585	307,343	307,343	905,242

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION



EARLHAM COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds					
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 57,621	53,047	54,366	165,034	1,883	166,917
Receivables:						
Property tax:						
Current year delinquent	1,308	0	1,883	3,191	3,599	6,790
Succeeding year	90,000	0	146,444	236,444	268,755	505,199
TOTAL ASSETS	\$ 148,929	53,047	202,693	404,669	274,237	678,906
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	416	0	416	0	416
Deferred revenue:						
Succeeding year property tax	90,000	0	146,444	236,444	268,755	505,199
Total Liabilities	90,000	416	146,444	236,860	268,755	505,615
Fund balances:						
Reserved for debt service	0	0	0	0	5,482	5,482
Unreserved fund balances	58,929	52,631	56,249	167,809	0	167,809
Total fund balances	58,929	52,631	56,249	167,809	5,482	173,291
TOTAL LIABILITIES AND FUND BALANCES	\$ 148,929	53,047	202,693	404,669	274,237	678,906

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 98,142	0	141,566	239,708	270,622	510,330
Other	4,239	174,577	1,739	180,555	1,294	181,849
TOTAL REVENUES	102,381	174,577	143,305	420,263	271,916	692,179
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	182,220	0	182,220	0	182,220
Support services:						
Operation and maintenance of plant services	83,450	0	0	83,450	0	83,450
Other expenditures:						
Facilities acquisitions	0	0	816	816	0	816
Long-term debt:						
Principal	0	0	0	0	210,000	210,000
Interest and fiscal charges	0	0	0	0	168,559	168,559
TOTAL EXPENDITURES	83,450	182,220	816	266,486	378,559	645,045
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	18,931	(7,643)	142,489	153,777	(106,643)	47,134
OTHER FINANCING SOURCES (USES):						
Transfers in	0	0	0	0	107,905	107,905
Transfers out	0	0	(107,905)	(107,905)	0	(107,905)
Total other financing sources (uses)	0	0	(107,905)	(107,905)	107,905	0
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	18,931	(7,643)	34,584	45,872	1,262	47,134
FUND BALANCE BEGINNING OF YEAR	39,998	60,274	21,665	121,937	4,220	126,157
FUND BALANCE END OF YEAR	\$ 58,929	52,631	56,249	167,809	5,482	173,291

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletic	\$ 15,107	62,843	77,022	928
Drill Team	227	2,339	2,093	473
FFA	6,577	28,642	23,805	11,414
FCCLA	3,995	1,069	2,657	2,407
National Honor Society	792	666	584	874
General Student Activity	321	7,289	6,641	969
Middle School Musical	762	0	236	526
Drama	2,667	1,600	1,185	3,082
Speech	34	0	0	34
Annual	3,186	8,490	9,225	2,451
Cheerleaders	667	7,627	5,504	2,790
Jack Oatts Festival	858	9,328	7,160	3,026
Art Club	272	236	90	418
Spanish Club	123	308	325	106
Science Club	102	0	0	102
High School Student Council	505	4,376	3,943	938
Middle School Student Council	3,494	6,222	7,129	2,587
Class of 2009	0	0	(927)	927
Class of 2005	169	0	169	0
Class of 2006	7,274	3,802	10,313	763
Class of 2007	2,675	9,208	5,891	5,992
Class of 2008	1,144	0	0	1,144
Elementary Fundraiser	9,323	20,532	19,175	10,680
Total	\$ 60,274	174,577	182,220	52,631

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EARLHAM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	2,047,415	1,818,495	1,621,106	1,728,152
Tuition		384,846	336,582	329,086	304,218
Other		259,814	293,339	338,103	388,591
State sources		2,626,931	2,258,234	2,158,150	2,116,211
Federal sources		111,875	132,318	92,648	73,643
Total	\$	5,430,881	4,838,968	4,539,093	4,610,815
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	2,136,718	1,866,121	1,716,357	1,746,415
Special instruction		425,315	534,336	473,000	439,607
Other instruction		569,161	481,314	447,460	447,395
Support services:					
Student services		78,266	71,110	68,760	82,510
Instructional staff services		117,377	113,857	87,247	79,973
Administration services		550,297	516,682	464,359	447,117
Operation and maintenance of plant services		510,278	645,614	684,453	514,393
Transportation services		141,083	152,665	112,968	235,925
Central services		0	0	52,942	31,572
Non-instructional programs		0	0	0	498
Other expenditures:					
Facilities acquisitions		38,921	353,456	2,246,520	2,978,375
Long-term debt:					
Principal		210,000	200,000	190,000	150,000
Interest and other charges		177,934	177,359	186,309	241,361
AEA flow-through		170,580	149,175	146,376	157,301
Total	\$	5,125,930	5,261,689	6,876,751	7,552,442

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Earlham Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Earlham Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Earlham Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

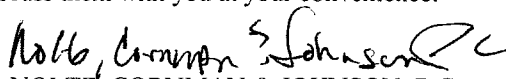
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Earlham Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Earlham Community School District and other parties to whom Earlham Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Earlham Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 7, 2006

EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing and bank deposits are done by one person and the posting of the cash receipts journal is done by a different person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund-Individuals Receiving Checks - We noted during our audit that the District wrote checks to individual students in the Student Activity Fund. These checks, considering their nature, should be run through payroll so appropriate taxes can be deducted from the earnings of each student being paid.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - This has been taken care of and switched to payroll.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - The Elementary Fundraiser account had expenditures for reading materials, textbooks and related supplies that are more instructional in nature. It was also noted that Target donations were being receipted into the Activity Fund.

Recommendation - The District should evaluate the expenditures made from the Elementary Fundraiser account. If it appears that most of the expenditures from this account are for instructional materials, the remaining balance should be moved to the General Fund.

Donations made to a District should be placed in the most appropriate place based upon the donor request. Target donates to schools for materials and supplies. The most logical place to record the revenue and subsequent purchase would be the General Fund. The District should record future donations from Target in the General Fund.

Response - The elementary fundraiser balance has been moved to the General Fund and set up as a balance account so they can know what they have to spend on classroom supplies, books, etc. Target donations are all going into the General Fund now.

Conclusion - Response accepted.

I-D-06 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - Our facility does not lend itself to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

Conclusion - Response accepted.



EARLHAM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Marden, Board President	Official	\$300
Mike Book, Transportation Director Owns Mike's Body and Paint	Repairs	\$200

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with Mr. Marden does not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Mr. Book do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.